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June 20, 2007

AZ CORP COMMISSION
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CERTIFIED MAIL

Mr. Jim West
Authorized Representative
West & Company, LLC.
365 East Coronado Road., Suite 200
Phoenix, Arizona 85004

RE: WILHOIT WATER COMPANY, INC (Yavapai Mobile Home Estates) -
APPLICATION FOR RATE INCREASE DOCKET NO. W-02065A-07-0311

LETTER OF INSUFFICIENCY

Dear Mr. West:

This letter (per section R14-2-103.B.7 of the Arizona Administrative Code) is to inform you that the company's application, received on May 21, 2007, did not meet the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103. Staff has found a number of deficiencies with the applications which are listed on a separate attachment. The 30-day sufficiency determination period will begin anew when the Company corrects the deficiencies and Docket Control receives original and 15 copies of the corrected pages.

You have 15 calendar days, or until July 5, 2007 to correct the deficiencies, or make other arrangements with Staff to remedy your rate application. If corrections or other arrangements are not made by that date, Staff will request the docket number be administratively closed. Docket Control will retain one copy of the original application for Commission records. You may file an original and 15 copies of an updated application at a later date.

Arizona Corporation Commission
DOCKETED

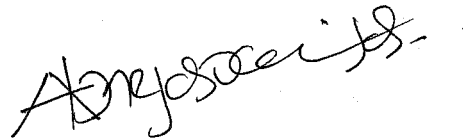
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The staff person assigned to your application is Gary McMurry. He can be reached at (602) 542-2044, or toll free at (800) 222-7000, if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read 'Elijah Abinah', with a stylized flourish at the end.

Elijah Abinah
Assistant Director/Acting Chief Accountant
Finance & Regulatory Analysis Section
Utilities Division

CC: Docket Control (original and thirteen copies)
Vicki Wallace, Consumer Services
Delbert Smith, Engineering
Lyn Farmer, Hearing Division

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The specific items that have caused a finding of insufficient for the rate application are as follows:

- Items number one through ten are common to each of Wilhoit's four water systems.
- Item number eleven and above relate specifically to the Yavapai Mobile Home Estates water system.

Overall Compliance Issues

1. Per examination of a notice of legal action dated September 14, 1993, as filed by the Legal Division of the Arizona Corporation Commission ("Commission"). There is several compliance items unresolved that arose from Decision No. 58102 (December 9th, 1992). Please indicate if the Company has complied with the following items listed below. If the Company has complied please send us supporting documentation, if the Company has not complied state the reasons for the noncompliance.
 - a. Wilhoit Water Company, Inc. shall file copies with the Director of the Utilities Division of "paid-in-full" tax statements for current property tax payments within 90 days of the tax statement due date (Due 2/1/93).
 - b. Wilhoit Water Company, Inc. shall make arrangements with the appropriate taxing authorities to repay all accrued property tax and associated interest and to provide a written summary to the Director of the Utilities Division of the details of such arrangements/agreements (Due 6/9/93).
 - c. Wilhoit Water Company, Inc. shall file an application with the Commission within six months of the date of this Decision (12/9/92) requesting approval of the sale of the Willow Lakes system and deletion of the corresponding Certificate of Convenience and Necessity ("CC&N") area (Due 6/9/93).
2. Per examination of a memo dated September 13, 2006, as filed by Linda Jaress, Executive Consultant III in the Utilities Division of the Commission. The docket is still open and will remain so until further action by the Commission.

The memo contained a brief history and is summarized as follows: On July 16, 2003, Wilhoit Water Company filed an application for approval of the sale of a portion of its assets used to serve the Glen Arm Farms water system to the City of Avondale and to cancel that portion its CC&N. After a hearing, an order was issued on January 7, 2004, which recommended approval of the sale and cancellation of a portion of the CC&N subject to several conditions. The Company requested that the item be pulled from the open meeting. On June 7, 2004, attorney David Ronald, on behalf of the Commission's legal Division, sent

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a letter to Mr. Douglas Martin who represented the Company, but never received a response.

According to the memo "Wilhoit is still the company of record for this area on the Commission's maps and in its files. In order to proceed with removing the case from the Commission's pending cases and to make appropriate changes to the Commission's maps and records, please provide Staff the following information so Staff can proceed with the necessary steps to resolve this docket." The following questions still remain unanswered from the memo. Please provide responses to these questions.

- a. Has the sale of Glen Arm Farms to the City of Avondale been consummated? If so, on what date?
 - b. Please provide a copy of the executed sales agreement.
 - c. What are the parties' intentions regarding the Proposed Order and the Commission review and vote on this matter?
 - d. What is the status of the property tax delinquencies of Wilhoit Water Company relative to the area transferred to Avondale?
 - e. What was the treatment of any outstanding customer advances or deposits? What obligations, if any, were assumed by the acquirer?
3. Please file your 2006 annual report with the Utilities Division of the Arizona Corporation Commission.
 4. Please address how the company has corrected the deficiency items noted in the letter dated 3/20/07 from the Arizona Department of Revenue stating that the Company is not in good standing.
 5. In regards to invoices submitted, please separate and specify each invoice first by water system (i.e., Thunderbird Meadows System, Yavapai Mobile Home Estates, and Blue Hills) and secondly by the category of expenses (e.g. purchased water, purchased power, repairs, etc.). Please do this for the Dells Water Company also.
 6. Please ensure that all appropriate boxes are checked on page 1 of the application.
 7. Please provide Staff with arsenic levels for each individual well broken-out by the three Wilhoit water systems and the Dells Water Company.
 8. Please provide the ADEQ Monitoring Assistance Program invoice for each of the three Wilhoit water systems and the Dells Water Company.

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9. Please explain the relationship with Glenarm Land Co., the Wilhoit water systems, and the Dell Water system and any other company that is affiliated with the water companies. Please include an organizational chart.
10. Please provide copies of your last three income tax returns for the Wilhoit and Dells Water Companies.

Deficiency items specific to Yavapai Mobile Home Estates

11. The customer notification letter (page 32) exhibits an inconsistency between the percentage increase in revenue and the stated dollar amount of the increase in revenue, please explain.
12. There is a discrepancy between the Statement in Support of Rate Request (page 6) that shows the company serving 110 metered customers while the Custom Meters Schedule on page 17 shows only 86 meters.
13. The revenue generated by the billing determinants (page 31) does not reconcile to the income statement as it should.
14. The Utility Plant in Service schedule (page 15) Total Water Plant (OC) of \$117,493 does not agree with either the Total Water Plant on the Calculation of Depreciation Expense (page 20) of \$29,422 (OCLD) or the Balance Sheet's Utility Plant in Service (page 21) of \$597,952. These amounts should be in agreement.
15. The calculation of depreciation expense schedule (page 20) column for "Original Cost" appears to contain net book value figures (OCLD) rather than the required original cost amount.
16. The balance sheet (pages 21 & 22) does not contain balances at the end of the test year for Utility Plant in Service ("UPIS"), Accumulated Depreciation, Common Stock, and Retained Earnings as required.
17. The balance sheet (page 21 & 22) indicates that it "includes all Wilhoit sites" (e.g. consolidated) and does not appear to break out assets and liabilities by water system (e.g. Yavapai Estates, Blue Hills #3, etc.) as required. Please provide a balance sheet representing each water system separately.
18. The supplemental financial data schedule (page 23) is not completed to reflect the apparent long term liability as indicated by the beginning and ending of the year N/P current balance (page 22).
19. The delinquent property taxes calculation does not agree in the aggregate with the provided documentation. According to the 4/2/07 memo from Nicole Graybill to

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Jim West, the delinquent property taxes for Yavapai Mobile Home Estates (1) was only \$10,450.29. This amount appears to be a calculation of only the interest due, and does not include the past due tax amount.

20. The application does not include an agreed upon delinquent tax payment plan with the Yavapai County Treasurer. Have you submitted your property tax proposal to the Treasurer's Office? If yes, please provide the Treasurer's response. If no, then please explain why it hasn't been submitted.
21. The application's description of the Yavapai water system's data listed in the plant description schedule (page 16 and 17) is incomplete:
 - a. Please disclose how many wells were connected to the Yavapai system during the Test Year. Provide data for **all** wells. Also, the well ADWR ID Number does not match the number indicated in the 2005 Annual Report.
 - b. Indicate piping material on page 17.
 - c. Indicate treatment equipment (such as chlorination treatment if any) and Structures on page 17.
 - d. The application does not report gallons pumped (page 18) in the rate application as it should.
22. The application's income statement (page 19) lacks sufficient detail regarding water testing expenses (Acct. 635-\$ 2,703):
 - a. Please provide cost/sample breakdown for water testing expenses for the Yavapai water system during the test year.
 - b. Include the cost of the required quarterly arsenic analyses.
 - c. Disclose the cost of the required lead and copper test per sample.
 - d. Please provide a copy of the MAP invoice. Please disclose whether the ADEQ annual sampling fee for its Monitoring Assistance Program (MAP) is included in that balance (\$2,703).
23. Please provide the following information with respect to a temporary interconnect with the City of Prescott water system.
 - a) Please disclose the gallons purchased from the City of Prescott.
 - b) Please provide the date when this interconnect was placed in service and when it will be terminated.

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24. With regard to arsenic treatment system (page 17):
- a) Please explain whether the proposed arsenic treatment system (single tank) will mitigate the arsenic problem for **both** wells.
 - b) Provide a copy of the ADEQ Approval to construct for the proposed arsenic treatment system.
 - c) Provide a layout map of the Yavapai water system showing location of each well, arsenic treatment system(s), interconnecting piping, storage and pressure tanks.
 - d) Provide the arsenic level for each well and projected arsenic level that will result after the treatment.
 - e) Please disclose the treatment capacity in gallons per day.
 - f) Please explain how the Media Operating Cost of \$5,109.48 per year was derived.
 - g) Please indicate if the cost of \$ 36,105.40 includes the required installation.
25. With respect to the well dug in 2005 (page 3):
- a) Please explain whether this well was drilled as an alternative solution to resolve water quality issues, or to add production to the Yavapai system.
 - b) Please state whether this well was in use during the test year.